

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
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STATEMENT OF MAURICE H. STANS,
DIRECTOR OF THE BUREAU OF THE BUDGET,
BEFORE THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON FEDERAL EMPLOYEE HEALTH INSURANCE (S. 2162)

Mr. Chairman and Members of the Committee:

I am pleased to appear before your Committee to express the views of the Bureau of the Budget with respect to S. 2162. In this statement I will confine myself to the main features of the Administration's position in this matter. The details of the bill and many of the specific technical adjustments necessary to make S. 2162 acceptable have been set forth in the report of the Civil Service Commission and in the testimony of the past few days.

First of all, this Administration favors the establishment of pay and benefits systems for Federal employees which are reasonably comparable in structure and level to the pay and benefits systems provided by progressive private employers. In a Special Statement on personnel legislation in February 1954, the President pointed out that the Federal employee compensation system failed to provide two types of benefits protections which were necessary elements in a well-rounded compensation system, and recommended the establishment of a program of employee group life insurance and a program of employee health insurance. The life

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insurance program was enacted promptly but agreement on a health insurance program turned out to be more difficult. Again in 1955, in 1956, and in 1957 specific programs were recommended by the Administration, each program different from its predecessor, each seeking a formula that would be acceptable to all concerned. In 1958 it was recognized that pay adjustment legislation was needed, and the President recommended that consideration of the health insurance program be postponed. Now in 1959 the Administration again recommends the enactment of a sound and suitable employee health insurance program.

During these years the Federal employee compensation system of pay and benefits has been very substantially liberalized, both as to rates of salary and wages and as to fringe benefits. In 1957 the so-called Cordiner Committee, which was investigating the compensation of civilian scientific, professional, and managerial personnel of the Department of Defense, reported that the expenditures for fringe benefits made by the Government for its civilian employees exceeded the expenditures for fringe benefits by private employers, even though the Federal fringe benefits package did not include a program of health insurance.

Second, Civil Service Commission has advised your Committee that a sound program providing a level of health insurance benefits protection reasonably comparable with the more progressive private industry plans can be provided Federal employees at a total cost considerably less than the cost estimated for S. 2162. Such a plan would cover not only the active service employees but also those employees who retire

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in the future and their survivors. Health care needs of employees for themselves and their families can only be clearly defined through experience. The Civil Service Commission program provides the framework for an appropriate and continuing Federal employee health insurance program. We deem it essential that the program operate within this framework, particularly in its early years.

A more ambitious program going beyond the private employment standard, such as would be provided at the maximum expenditure rate provided in S. 2162, is neither required in equity to the Federal employees nor fair to the Nation's taxpayers.

Third, the system and organization established to administer the new health insurance benefits program should result in clearcut assignment of responsibility and unmistakable accountability for the effectiveness of the program. The provisions of S. 2162 do not set up a sound organization. I will comment on three major modifications which we believe necessary. They pertain to the proposed Advisory Council, the proposed reorganization of the Civil Service Commission, and the proposed submittal of contracts and regulations to congressional committees. The Civil Service Commission, we understand, has advised you and offered to work with you to correct several other administrative features which require modification.

The functions and membership of the proposed Advisory Council are not designed to aid sound administration. The Civil Service Commission is designated as the administering agency, and properly so. However,

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the Council's assigned functions include making investigations of the administration of the program and receiving reports direct from carriers and employees. Such assignment would confuse the Commission's authority in its relation with carriers, employing agencies, and employees. The Civil Service Commission should be held unmistakably accountable for the effectiveness of this new program. The Commission itself can and will seek the advice of responsible experts in the health insurance field. Accordingly, we recommend that section 12 of the bill be deleted.

The proposed reorganization of the Civil Service Commission would interfere with the existing statutory powers and responsibility of the Chairman, and we are unable to discover any purpose to be served by it. Since 1949 the Chairman properly has been authorized to determine internal organization of the Commission's business and to designate officers and employees to perform assigned functions. We recommend that no change be made in this regard.

The requirement that the Commission submit proposed contracts and regulations to the Senate and House Committees on Post Office and Civil Service is not only unnecessary but could bring about confused accountability for the program. The requirement is unnecessary to assure energetic administration by the Commission, since the July 1, 1960, effective date for beginning the program is stated in the bill. If the requirement is to be used as a kind of appeals procedure by prospective contractors or others seeking to overcome Commission administrative decisions, we consider it improper as well as unwise. The powers of the Committees to

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investigate and to recommend legislation to the full Congress are unquestionable and they will in themselves constitute their usual positive influence toward equitable and effective administration. No power of prior review of executive action, such as is apparently proposed here, would be proper. We recommend that subsection (a) of section 16 be deleted from the bill.

Fourth, the cost of the new health insurance benefits system should be shared between the employee and his employing agency on the same basis as was established in 1954 for the Federal Employee Group Life Insurance Program. The sound cost-sharing basis established in that program has not been seriously questioned. Under that program the Federal employees pay two-thirds of the cost and the Government pays one-third. We see no basis for upsetting this arrangement, and we believe it should be incorporated in the new health insurance program. Applying this cost-sharing formula to the \$240 million total cost which has been found necessary to provide the Federal employees with health insurance protection reasonably comparable with that provided in progressive private industry, we have derived the proper Government's share of the annual cost as \$80 million. The Bureau of the Budget therefore takes the position that this is the maximum Government expenditure necessary to provide an acceptable health insurance program.